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SUBJECT: Union Disunity Causes ProtestsQ Failure

¶1. SUMMARY. A series of September protests organized by the small Croatian Trade Union Association failed to gather more than a few hundred angry senior citizens, while Croatia's larger unions elected not to participate. Relations between the government and unions have been strained, particularly after the government raised the VAT rate and introduced a new Qcrisis income taxQ to solidify the state budget. Croatian labor unions all share the goal of eliminating these recent tax increases. However, their effectiveness is hindered by longstanding suspicion of one another and a lack of cohesion on how to best deal with the government. The Croatian Employers Association also wants lower taxes, as well as significant labor reforms to improve competitiveness for foreign investment. If unions hope to bring the coordinated pressure necessary to push the government toward real changes in labor policy, they will have to learn to put aside their differences. END SUMMARY.

¶2. (U) The six largest Croatian trade unions represent approximately 500,000 workers in the country. Their main objective is to get the GoC to eliminate the recent 'crisis-tax' and to lower the 23% value-added tax (PDV) on goods and services. However, infighting and lack of agreement on how to accomplish their goals continuously undermine their discussions with the GoC.

¶3. (U) Currently, there is an open feud between leaders of the Union of Independent Trade Unions of Croatia (SSSH) and the Croatian Trade Union Association (HUS) about whether to engage in direct talks with the government over the tax issue or to pursue strikes and protests. (Note: SSSH is the largest labor union with 225,000 members and HUS is the smallest with 45,000 members. SSSH leadership currently supports open and direct negotiations with the PM KosorQs government on addressing their issues.)

¶4. (SBU) HUS recently organized protests in seven cities around Croatia without the support of the other major unions. The protests were widely viewed as unsuccessful. Participation ranged from a few hundred in the smaller cities to approx 1,200 in Zagreb. About 90% of the protestors were older than 45 with heavy turnout from pensioners and the unemployed. HUS president Ozren Matijasevic was disappointed with the protest turnout and told Econoff that HUS will plan another series of protests later in the fall. He views current talks with the GoC as "a waste of time" and said that HUS is a public watchdog informing the Croatian people about the GoC's mismanagement of the economy. Matijasevic criticized his union counterparts for not supporting HUS's protests and claimed that SSSH has "an interest in keeping the taxes because of its public sector members."

¶5. (SBU) In a recent meeting with econoffs, SSSH President Ana Knezevic expressed dismay about the protests. She believes Matijasevic saw these protests mainly as an opportunity to increase his media profile, but that their weak turnout undermined the other unions' negotiating position with the GoC, not just on the tax issue but on other labor law reforms they are seeking.

¶6. (SBU) The Croatian Employers Association (HUP) often finds itself

on the other side of the table from labor unions in these talks with the government. However, HUP Legal Advisor Natasha Novakovic told us that labor law reform and lower taxes are among their key priorities as well. HUP represents 6,000 businesses in Croatia and lobbies the GoC on behalf of employers advocating lower taxes and subsidies.

¶17. (SBU) Novakovic was pessimistic about the GoC's willingness to implement meaningful reform. Novakovic believes the new draft labor law is only cosmetic legislation to fulfill Croatia's labor requirements for EU membership. She added that the only way significant labor reform would occur in Croatia would be through compromise between the two major political parties on a strategy to lower taxes and improve the business climate. She said that such a strategy would include enough unpopular measures to make a political compromise of this sort unlikely.

¶18. (SBU) COMMENT. Rising unemployment poses serious political risks for PM Kosor and her HDZ-led government. Despite talk of potential labor unrest all summer, however, the labor unions' first foray into active protest this fall was a failure, and PM Kosor's government is unlikely to feel coordinated pressure from labor groups anytime soon. The opposition has not presented any serious policy alternatives either, appearing happy to rely on a general sense of dissatisfaction with the ruling HDZ party, rather than any pointed or focused critique of the government. END COMMENT.

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